

Service Date: June 21, 1976

BEFORE THE UTILITY DIVISION  
DEPARTMENT OF PUBLIC SERVICE REGULATION  
MONTANA PUBLIC SERVICE COMMISSION

In the Matter of the Application of	)	
PACIFIC POWER & LIGHT COMPANY for an	)	
order authorizing it (1) to enter into	)	
a Financing Agreement pursuant to	)	
which Applicant will assume liability	)	DOCKET NO. 6416
for the payment of not to exceed	)	
\$60,000,000 of Pollution Control Revenue	)	
Bonds to be issued by the County of	)	DEFAULT ORDER NO. 4264
Converse, Wyoming, and (2) to issue not	)	
to exceed \$60,000,000 in aggregate	)	
principal amount of Applicant's First	)	
Mortgage Bonds to secure its obligations	)	
under said Financing Agreement	)	

On May 18, 1976, PACIFIC POWER & LIGHT COMPANY, hereinafter referred to as Applicant, a corporation organized and existing under and by virtue of the laws of the State of Maine, and qualified to transact business in Montana, filed with the Montana Public Service Commission its verified application, pursuant to Sections 70-117.1 to 70-117.6, inclusive, RCM 1947, requesting an order authorizing Applicant (1) to enter into a Financing Agreement (Financing Agreement) with the County of Converse, Wyoming (County), pursuant to which Applicant will incur liabilities equal to the required payment of the principal obligation of, premium, if any, and interest on Pollution Control Revenue Bonds (Pollution Control Bonds) not to exceed \$60,000,000 in aggregate principal amount, to be issued by the County, pursuant to an Indenture of Trust (the Indenture) to be entered into between the County and a bank (to be selected) acting as Trustee (Trustee), and (2) without sale at competitive bidding, to issue not to exceed \$60,000,000 in aggregate principal amount of its First Mortgage Bonds (First Mortgage Bonds) for delivery to the Trustee as security for Applicant's obligations under the Financing Agreement. The application is supported by exhibits and data in accordance with the rules and

regulations of the Commission governing the authorization of issuance of securities by electric and gas utility companies operating within Montana. For detailed information with respect to the general character of Applicant's business and the territories served by it, reference is made to its annual reports on file with the Commission.

The application sets forth Counsel who will pass upon the legality of the proposed transactions, the other regulatory authorizations required and the propriety of the proposed transactions.

At a regular open session of the Montana Public Service Commission, held in its office at 1227 11th Avenue, Helena, Montana, on June 15, 1976, there being present Chairman Gordon E. Bollinger, P. J. Gilfeather, Commissioner, Thomas G. Monahan, Commissioner and James R. Shea, Commissioner, there came before the Commission for final action the matters and things in Docket No. 6416, and the Commission, having fully considered the application and all the data and records pertaining thereto on file with the Commission and being fully advised in the premises, makes the following:

#### FINDINGS OF FACT

1. Applicant, Pacific Power & Light Company, is a corporation organized and existing under and by virtue of the laws of the State of Maine and is qualified to transact business in the State of Montana.
2. Applicant is operating as a public utility as defined in Section 70-103, RCM 1947, and as such is engaged in furnishing electric and water service in Montana.
3. The Commission has jurisdiction over the subject matter of the application under Sections 70-117.1 through 70-117.6, RCM 1947.
4. Public notice of the filing of the application and opportunity for the public hearing was given on May 27, 1976, in The Western News, Libby, Montana; on May 25, 1976, in The Missoulian,

Missoula, Montana; and on May 25, 1976, in The Daily Interlake, Kalispell, Montana, and no protests or requests for a formal hearing were received by June 12, 1976.

5. Applicant proposes to assume certain liability and to issue the securities as hereinafter set forth.

A. Liability to be Assumed

Applicant owns and operates the Dave Johnston Plant, a four unit coal-fired steam-electric generating facility located in Converse County, Wyoming, with an aggregate nameplate rating of 750,300 kilowatts. It is contemplated that the Financing Agreement (Exhibit F) will be entered into between Applicant and the County for the purpose of financing pollution control facilities (Facilities) to be installed and operated by Applicant for Units 1, 2 and 3 at its Dave Johnston Plant, through the issuance by the County of its Pollution Control Bonds in aggregate principal amount not to exceed \$60,000,000.

The Financing Agreement will commit Applicant to complete as promptly as practicable the construction of the Facilities which will be “pollution control facilities” within the meaning of Section 103(c)(4)(E) or (F) of the Internal Revenue Code of 1954, as amended, and related regulations. It will also commit the County to issue and sell to purchasers its Pollution Control Bonds in one or more series in aggregate principal amount not to exceed \$60,000,000, the proceeds of which will be loaned to Applicant to pay for all or part of the cost of the Facilities. The rate of interest and other terms of the Pollution Control Bonds will depend on market conditions at the time of their issuance.

Pursuant to the Financing Agreement, Applicant will pay, in installments, such amounts of money as may be required to meet payments of principal of, interest and premium, if any, on the Pollution Control Bonds. Applicant will also pay the reasonable and necessary fees and expenses of the Trustee and any paying agents and the reasonable expenses of the County incurred in connection with the issuance and redemption of said Bonds.

Description of Pollution Control Bonds

The County will issue in one or more series, in aggregate principal amount not to exceed \$60,000,000, its Pollution Control Bonds, which will bear interest from their date of issuance at the rate of \_\_\_\_% per annum (to be determined) , and which will mature on such date or dates as may be determined after discussions with underwriters; interest will be payable semi-annually. The Pollution Control Bonds will be issued under an Indenture of Trust (the Indenture) between the County and the Trustee. The Pollution Control Bonds will be issuable as coupon bonds in the denomination of \$5,000 each, registrable as to principal only, or as fully registered bonds.

The County may issue additional series of Bonds under the Indenture to complete the acquisition, construction and installation of the Facilities or for other purposes under the Indenture.

The County is authorized to issue the Pollution Control Bonds pursuant to Sections 15.1-92 to 15.1-100.1, inclusive, Wyoming Statutes 1957, as amended. Applicant understands that interest payable on the Pollution Control Bonds will be exempt from federal income taxes under the provisions of Section 103 of the Internal Revenue Code of 1954, as amended (except for interest on any Pollution Control Bond during a period in which it is held by a person who is a substantial user of the Facilities or a related person).

Although the County will be the issuer of the Pollution Control Bonds, as required for purposes of exemption of the interest on such bonds from federal income taxation, the credit of the County will not be pledged to the payment of the bonds, but as hereinabove stated such bonds will be payable from the loan installment repayments by Applicant and/or from payments on the proposed new series of Applicant's First Mortgage Bonds.

The Pollution Control Bonds will be sold to underwriters by the County pursuant to a bond purchase agreement between the County and the underwriters. Applicant will not be a party to the bond purchase agreement. The sale of the Pollution Control Bonds by the County will be governed by Wyoming law and will be accomplished without competitive bidding.

It is not possible to predict precisely the interest savings which may be obtained in connection with the issuance of the Pollution Control Bonds. However, tax-exempt bonds such as these have historically carried an annual interest rate approximately one and one-half to two percentage points lower than taxable long-term bonds issued by the corporation for which the tax-exempt bonds are issued. Therefore, it is expected that Applicant will realize substantial savings in connection with this transaction as compared with the interest cost it would otherwise incur by financing the Facilities directly through Applicant's issuing taxable bonds.

A further description of the Pollution Control Bonds is set forth in the Indenture (Exhibit G).

#### B. Securities to be Issued

In order to improve the credit rating of the Pollution Control Bonds and thereby to reduce both the interest rate or rates thereon and Applicant's related loan repayment obligations, the Financing Agreement provides that Applicant will issue, pledge and deliver to the Trustee one or more new series of Applicant's First Mortgage Bonds, in principal amount equal to the Pollution Control Bonds as security for the Pollution Control Bonds and the performance by Applicant of its obligations under the Financial Agreement. The First Mortgage Bonds will have provisions parallel to the Pollution Control Bonds with respect to interest rates, sinking fund requirements and maturity dates; however, interest and principal payments on the First Mortgage Bonds will be excused if Applicant makes the required payments under the Financing Agreement.

The obligation of Applicant to make the payments required under the Financing Agreement and to perform and observe all other agreements and covenants on its part contained therein will be absolute and unconditional. The right to receive all payments to be made by Applicant pursuant to the Financing Agreement will be assigned by the County to the Trustee, and Applicant will pay such amounts directly to the Trustee.

Detailed information with respect to Applicant's obligation to repay to the County the proceeds from the sale of the Pollution Control Bonds and the delivery of Applicant's First Mortgage Bonds as security therefor is set forth in the Financing Agreement (Exhibit F).

### First Mortgage Bonds

The securities proposed to be issued by Applicant are not to exceed \$60,000,000 in aggregate principal amount of one or more new series of Applicant's First Mortgage Bonds.

Concurrently with the issuance by the County of the Pollution Control Bonds and to secure Applicant's obligation under the Financing Agreement to pay, when due, the principal of, premium, if any, and interest on said bonds, Applicant will deliver to the Trustee its First Mortgage Bonds in principal amounts corresponding to the principal amount of the Pollution Control Bonds issued and outstanding.

The First Mortgage Bonds will be issued under and pursuant to Applicant's presently existing Mortgage and Deed of Trust, dated as of July 1, 1947, to Guaranty Trust Company of New York (now Morgan Guaranty Trust Company of New York) and Oliver R. Brooks (R. E. Sparrow, successor), as Trustees (Mortgage Trustee), as previously supplemented by twenty-nine Supplemental Indentures and as proposed to be supplemented by one or more Supplemental Indentures (Exhibit D).

The First Mortgage Bonds will be in the same aggregate principal amount as the Pollution Control Bonds, will be issued with the same maturity date or dates as the Pollution Control Bonds, will require payments of interest equal to and at the same time as the payments of interest on the Pollution Control Bonds, will, require payment or payments of principal in the same amounts and at the same time as any sinking fund requirements with respect to the Pollution Control Bonds, will require prepayment or prepayments of principal and payment or payments of premium, if any, in the same amount and at the same time as any redemption of the Pollution Control Bonds, will require payments to be made on or prior to the business day preceding the due date for the corresponding payments to be made on the Pollution Control Bonds, will be in fully registered form as to both principal and interest and be nontransferable except as required to effect assignment thereof to any successor trustee under the Pollution Control Bond Indenture. The First Mortgage Bonds will also be clearly legended to indicate the restrictions on the transfer thereof to reflect the fact that First Mortgage Bonds have not been and will not be registered under the Securities Act of 1933, as amended.

In the absence of any event of default of Applicant's repayment obligations under the Financing Agreement, the obligation to pay principal of or interest on the First Mortgage Bonds will be excused. Upon payment and cancellation of all or part of the Pollution Control Bonds by the Trustee, whether at maturity, by redemption, or otherwise, or upon provision for the payment thereof having been made in accordance with the Indenture, an equal principal amount of First Mortgage Bonds of Applicant will be deemed fully paid and the obligations of Applicant thereunder will cease.

A further general description of the First Mortgage Bonds is set forth under Description of New Bonds in the proposed form of the Supplemental Indenture or Supplemental Indentures (Exhibit D) and in the Financing Agreement (Exhibit F).

6. Pursuant to authority granted Applicant by the Federal Power Commission on April 8, 1976, Applicant proposes to negotiate with the County with respect to the terms of Applicant's First Mortgage Bonds, which, in accordance with the terms of the Financing Agreement (also to be negotiated), will not be issued for sale but will be issued for delivery to the Trustee solely as security for repayment of the proceeds from the sale of the Pollution Control Bonds, pursuant to the Financing Agreement, and will have provisions parallel thereto with respect to interest rate, sinking fund requirements and maturity. Applicant has applied to the Federal Power Commission for exemption from the competitive bidding requirements of Section 34.1a of the Commission's Regulations with respect to the issuance of the First Mortgage Bonds and has also requested that the Federal Power Commission, on the basis of a one-order procedure, authorize Applicant to issue the First Mortgage Bonds upon its approval thereof.

7. Estimates as to the various items of expense to be incurred in connection with the issuance of the First Mortgage Bonds are set forth in the application. The total estimated expense in connection therewith is \$175,000.

Applicant proposes to enter into the Financing Agreement with the County, pursuant to which the County will loan Applicant the proceeds from the sale of its Pollution Control Bonds, and Applicant proposes to assume liability for the payment of said bonds and to issue its First Mortgage Bonds for

delivery to the Trustee as security for Applicant's obligations under said Financing Agreement all for the purpose of financing the construction of the Pollution Control Facilities.

The Facilities will consist of all or a portion of the following air and water pollution control equipment to be installed at Units 1, 2 and 3 at the Dave Johnston Plant. A final determination of those facilities or the portions thereof that may be financed through the issuance of Pollution Control Bonds has not been made.

#### Air Quality Control System

The system is designed to control particulate emissions in compliance with Wyoming emission standards for existing coal-fired steam-electric plants. The system is also designed to maintain ambient concentrations of particulates within applicable standards. An ambient air monitoring system to monitor ambient ground level concentrations and provide meteorological data has been established on site.

Electrostatic precipitators are being constructed and installed to reduce particulate emissions. Precipitator sizing was based on pilot precipitator tests which include physical measurements of the properties of fly ash, including resistivity, particle size and chemical constituents. Design collection efficiency exceeds 99 percent.

A single 500-foot concrete chimney, which contains individual flues to serve each of the three units, is sufficient to reduce ambient air ground level concentrations to comply with applicable federal and state primary and secondary ambient air standards. The system also includes a new fly ash handling system and associated electrical and mechanical equipment.

#### Water Quality Control

Wyoming and federal river water temperature standards require temperature control of plant condenser cooling water rejected into the North Platte River. Under certain expected North Platte River flow conditions, allowable temperature limits would be exceeded if all heated discharge water from Units 1, 2 and 3 were to be returned directly to the river. To insure compliance with applicable water



temperature standards, a new cooling tower and water distribution system, controlling approximately one-half of the condenser heat rejection load from Units 1, 2 and 3, has been installed. Heated cooling water is pumped from the units to the new induced draft cooling tower, where it is cooled by evaporation and returned to the condensers. As the cooling tower is not designed to handle the entire heat load of all three units, water continues to be withdrawn from the North Platte River for cooling and heated water from a part of the condensers is rejected to the river; however, these heat quantities are approximately one-half the quantities rejected prior to installation of the cooling tower.

To provide flexibility of operation, the system was designed to permit the use of once-through cooling directly from the North Platte River during periods when river conditions permit rejection of the entire amount of heat from the three units.

#### Project Capacity Allocated to Pollution Control

A portion of the total capacity of the Project is required to power pollution control facilities, and the cost of such portion is included in the cost of the Dave Johnston Plant.

(All numerical references to size, design or operations characteristics are intended to indicate the general nature and design of the Facilities and some deviation from these precise figures may occur.)

Actual construction of the air quality control system commenced in July, 1974 and anticipated completions for testing purposes are as follows: Unit 1 - August, 1976; Unit 2 - December, 1976; and Unit 3 - November, 1976. Total estimated cost is \$56,000,000.

Actual construction of the water quality control system commenced in May, 1973 and was completed in August, 1974 at a total approximate cost of \$6,000,000.

9. Because the First Mortgage Bonds will not be sold but will be pledged to the Trustee only as security for the payment of Applicant's obligations under the Financing Agreement and because the provisions of the First Mortgage Bonds with respect to interest rates, sinking fund requirements and maturity dates will parallel those of the Pollution Control Bonds, Applicant requests that, without further

filing or order of the Commission, Applicant be specifically authorized to issue the First Mortgage Bonds and to deliver the same to the Trustee when the provisions thereof have been determined by Applicant and the County. Applicant states that promptly after the consummation of the transactions herein contemplated, Applicant will report to the Commission that such transactions have been carried out in accordance with the terms and conditions of and for the purposes represented in the application.

### CONCLUSIONS OF LAW

The securities transactions proposed by Applicant, as hereinafter authorized, will be for a lawful purpose and are consistent with the public interest; the same are necessary, appropriate and consistent with the proper performance by Applicant of service as a public utility; and the aggregate amount of securities outstanding and proposed to be outstanding will not exceed the fair value of the properties and business of Applicant.

### ORDER

IT IS ORDERED by the Commission that:

1. The application of Pacific Power & Light Company to enter into a Financing Agreement (Financing Agreement) with the County of Converse, Wyoming (County), pursuant to which Applicant will incur liabilities equal to the required payment of the principal obligation of, premium, if any, and interest of Pollution Control Revenue Bonds (Pollution Control Bonds) not to exceed \$60,000,000 in aggregate principal amount, to be issued by the County, pursuant to an Indenture of Trust (the Indenture) to be entered into between the County and a bank (to be selected) acting as Trustee(Trustee) is hereby granted.

2. The application of Pacific Power & Light Company, without sale at competitive bidding, to issue not to exceed \$60,000,000 in aggregate principal amount of its First Mortgage Bonds (First Mortgage Bonds) for delivery to the Trustee as security for Applicant's obligations under the Financing Agreement is hereby granted.

3. This order shall be effective upon issuance hereof and Pacific Power & Light Company may issue the First Mortgage Bonds and consummate all said transactions without further filing or order of this Commission

4. Pacific Power & Light Company shall file with the Commission, from to time after consummation of said transactions, copies of reports as are required to be filed by Applicant with the Power Commission (FPC) under applicable rules and regulations FPC, as now in effect or hereafter amended, relating to the assumption of liabilities pursuant to the Financing Agreement and the of said First Mortgage Bonds and shall file true copies of the Supplemental Indenture or Supplemental Indentures, Financing Agreement and Indenture of Trust.

NOTE: Section 70-117.6 RCM 1947, provides that neither the issuance of securities by Applicant pursuant to the provisions of this order, nor any other act or deed done or performed in connection therewith, shall be construed to obligate the State of Montana to pay or guarantee in any manner whatsoever any security authorized, issued, assumed or guaranteed hereunder.

The approval of the transactions herein authorized shall not be construed as precedent to prejudice any future action of this Commission.

Issuance of this order does not mean acceptance of Applicant's exhibits or other material accompanying the application for any purpose other than the issuance of this order.

DONE IN OPEN SESSION at a meeting of the PUBLIC SERVICE

COMMISSION held June 15, 1976, by a 4 - 0 vote.

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GORDON E. BOLLINGER, Chairman

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P.J. GILFEATHER, Commissioner

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THOMAS G. MONAHAN, Commissioner

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JAMES R. SHEA, Commissioner

ATTEST:

GAIL E. BEHAN  
Secretary

(Seal)

NOTE: You are entitled TO judicial review of this Order. Judicial review may be obtained by filing within thirty (30) days from the service of this Order, a petition for review pursuant to Section 82-4216, RCM 1947.